UPWARD TREND IMPRESSIVELY CONFIRMED

The first quarter of 2017 brought an impressive continuation of the upward trend in the Frankfurt office premises market that had already been apparent last year. At 137,000 m², take-up in the overall market area represented the best result of the past eight years and exceeded the prior-year total by more than 11%. The figure posted by the narrower gif-defined area, 123,000 m², corresponded to growth of just under 9%. In the mid-range size classes, demand was particularly lively, whereas the share of turnover generated by major contracts upwards of 10,000 m² was very low by long-term Frankfurt standards, with just 13%. This comprised solely the lease for 17,500 m² in the Inner City concluded at the turn of the year by Zürich Beteiligungs-Aktiengesellschaft. The fact that the opening quarter was so good despite this shortage of large-scale contracts underlines the very broad and dynamic basis of demand in Germany’s banking centre.

BANKS GAIN ONLY FOURTH PLACE IN SECTORAL RANKING

Also notable is the fact that Frankfurt’s traditional mainstay, banks and financial services, came only fourth in the business-sector ranking, contributing just 10% to aggregate take-up – by far the lowest figure ever recorded. This shows that the city’s office market is much less dependent on financial institutions than is frequently asserted. The top slot in the first quarter was taken by information and communications technology firms, with just over 14% of the total. This pushed insurances into second place, with around 13% - a result fuelled decisively by the major lease cited above. Completing the top trio were other services, with just over 12%.

VACANCY REDUCTION CONTINUES

During the past twelve months, the long-evident decline in vacancy has been maintained. It now stands at slightly less than 1.57 million m², which is 10% below the prior-year total and the lowest level since 2002. The volume of modern vacant premises has also fallen, by 6% to 798,000 m². This means that only around half of all unoccupied space conforms to the quality standard preferred by tenants. The vacancy rate in the overall market is 10.1%, while in the narrower gif-defined area it is 10.6%. It seems realistic to expect the level to drop beneath the 10-percent mark in the course of the year.
MARKED DECLINE IN BUILDING ACTIVITY

The scale of building activity has fallen appreciably. Space under construction now totals 277,000 m², 18% less than a year ago and about one quarter below the ten-year average. The volume of this still available to the rental market has also shrunk, by more than 6% to 153,000 m², which is just slightly (7%) above the ten-year average. These figures indicate that one reason for the just moderate extent of construction activity in the central precincts is the limited supply of sites to build on. In some cases, this obliges users to opt for fringe areas.

RENTAL PRICE LEVELS ON THE RISE

Very good demand combined with declining vacancy has lifted rental prices, after these had previously remained stable for quite some time. In the past twelve months, the prime rent – obtained as before in the Bankenviertel (Banking District) – has climbed by just over 1% to 38.50 €/m². There has also been a perceptible upward tendency in both top and average rents in many other office market zones.

OUTLOOK

The general economic climate and the level of existing enquiries point to the likelihood of take-up in the year remaining good, with a total that should be well above the five-year average. Since the volume of unoccupied office units is also set to decline modestly, the months ahead could well bring not just a vacancy rate in the single figures but also a further moderate rise in rents.